

Reserve
1.933
Ac 23

243-
302-
UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration//
Washington 25, D. C.

June 14, 1951

3
ACCOUNTING AND AUDITING DIVISION STAFF BULLETIN NO. 9

SUBJECT: Disposition of Suspense Accounts

Suspense accounts arise from unreconciled or unknown differences between subsidiary records and general control accounts. This memorandum relates only to suspense accounts in connection with materials and supplies and work-in-progress accounts.

Some members of our staff apparently have the idea that differences may be eliminated from the records by spreading such amounts over future work orders, thus misstating the actual costs on those work orders. It should be noted that REA does not approve of this disposition of suspense accounts.

Three general categories of costs go into construction, that is, overhead, labor, and material. Overhead charged to the control account should be spread in some equitable fashion to all work in progress. Differences between amounts charged to individual projects and work orders and the total charged to the control account normally can be discovered and corrected.

All force account labor should be supported by time reports indicating individual work orders on which labor was performed. The sum total of labor should be charged to the work-in-progress account, with the individual work order cost sheets being charged with the individual amounts. Any differences between the total of the work order cost sheets and the control relating to labor should be traced and corrections made for omissions or duplications or mechanical errors in postings.

We believe that the principal cause for suspense items is the improper recording of material transactions. Generally, suspense accounts relating to materials affect both the work-in-progress account and the material and supply account. Oftentimes the difference in one account compensates for the difference in the other.

Materials in storerooms should be controlled in detail, with a record being made for all material issues for either construction or maintenance, and for all receipts of materials whether acquired by purchase, by return from construction due to overissue, or by salvage in connection with replacements and abandonments. This detailed control should be by material items for posting to the perpetual inventory record and by items and work orders or projects for all construction or salvaged materials. We realize that this is a difficult job, if for no other reason than that employees assigned to construction work generally are not concerned with keeping records in accordance with work order procedures recommended

by REA. In some cases work orders and project inventories are prepared from staking sheets at the time of completion, with no consideration being given to breakage, to lost material, or to deviations in actual construction as compared with data shown on staking sheets. Consequently, differences are bound to arise between the detailed records and the material control account. Again, assuming work orders are prepared from staking sheets upon completion of the job, and considerable construction is in progress, there will be quantities of materials shown in the material and stores control account although they are actually in the field. Some borrowers prepare work orders based upon pure estimates; consequently, the amounts for labor, material, and overhead do not represent true costs. Under such circumstances, the control cannot be expected to agree with the detailed records.

Because of the limited time available for an audit, the present audit staff of the Accounting and Auditing Division is unable to locate and determine the various causes of all differences which make up suspense accounts. Present plans call for the auditors to review the situation in general and prepare a program for the borrowers to follow in identifying existing differences. This program should be "tailor made" for each borrower, based upon the practices being followed by such borrower. The borrower's personnel should then follow the procedure outlined by the auditor and in this way develop work sheets which can be used as support for an opinion as to the make-up of the suspended amounts. Subsequent to the work by the borrower's personnel, representatives of the Engineering and the Accounting and Auditing Divisions will visit the cooperative and collectively, with the manager, determine the composition of the suspense account.

These suspense items normally fall into five main categories, namely, (1) proper capital expenditures, (2) credits due to overstatement of capital costs, (3) unrecorded salvaged materials, (4) maintenance expense, and (5) indeterminate differences, which generally will result from various conditions, such as excessive waste and breakage and lack of construction performance data. The disposition of these suspense items and the necessary supporting documents is described in the following paragraphs:

Proper Capital Expenditures

For those costs which can be classified as proper capital expenditures, a work order should be prepared supported by the cooperative's work sheets and a statement on conclusions drawn by representatives of the Engineering and the Accounting and Auditing Divisions and the cooperative's personnel. This work order will be the basis for a journal entry transferring these capital costs from the suspense account to the Unclassified Electric Plant in Service Account. This work order will represent costs which should have been capitalized in prior periods; therefore, it will be satisfactory evidence for an advance of loan funds to finance these charges. After approval by the Engineering and the Accounting and Auditing Divisions, the

amounts transferred to Unclassified Electric Plant in Service, Account 100.6, should be spread to plant accounts on the basis of amounts previously charged to the various plant accounts or on some other equitable basis which would give consideration to the composition of the suspended amounts.

Credits Due to Overstatement of Capital Costs

Generally, these credits to the suspense account result from the practice of using estimates in preparing work orders or from mechanical errors in pricing materials. These errors in accounting should be corrected by a journal entry supported by a work order eliminating the excess costs included in the primary plant accounts by a charge to the suspense account. This credit work order should set forth the method of calculating the total amounts, segregated by primary accounts, and should include a statement outlining the various factors resulting in the overstatement of capital costs. As in the case of the proper capital expenditures, we believe it impractical to allocate these overcharges to specific work orders or projects. Therefore, the credit to the primary accounts can again be allocated on the basis of total amounts previously charged to the various plant accounts or on some other equitable basis which would give consideration to the composition of the erroneous debits to plant. The total amount of this credit work order should be deducted from future advances of loan funds as this amount represents advances erroneously received from REA.

Unrecorded Salvaged Material

In connection with major replacements and abandonments, many borrowers have failed to prepare all necessary retirement work orders. Frequently no records were kept of reusable salvaged materials. Actually, such materials were returned to stores with no journal entry being prepared charging the material and supplies control account and crediting the retirement work-in-progress account. Therefore, a retirement work order should be prepared for all replaced property units, showing the original cost, cost of removal, and the salvaged material. This work order should be supported by the cooperative's work sheets and a statement on conclusions drawn by representatives of the Engineering and the Accounting and Auditing Divisions and cooperative personnel. In connection with system improvements, the value of salvaged material should be deducted from future advances of loan funds.

Maintenance Expense

Amounts determined to represent maintenance should be transferred by journal entry from the suspense account to the appropriate maintenance expense accounts in connection with the current year's activities, or to Account 415.1, Miscellaneous Debits to Patronage Capital, in connection with work performed in prior years. The current year can absorb these costs, provided the amounts are not large.

Indeterminate Differences

This item will be the final amount remaining in the suspense account after all attempts are made to identify the various items such as those noted above and, generally, will be a net debit. If a debit, it should be disposed of by a journal entry transferring this remaining amount direct to Account 274, Operations Clearing, if related to the current year. If definitely related to prior years, it should go to Account 415.1, Miscellaneous Debits to Patronage Capital. This disposition is recommended only after all efforts have been made to determine the identity of the difference and after a reasonably correct physical inventory is made and reconciled with the perpetual inventory record and the material and supplies control account. Should this remaining suspended difference be a credit, we recommend that it be disposed of by a journal entry supported by a work order transferring the amount to the primary plant accounts on the basis of dollar amounts previously charged to the various plant accounts. This credit work order should set forth the approach used in arriving at the amounts for the first four main categories noted above and should indicate the primary accounts to be credited. This credit should also be a deduction from future advances of loan funds. All journal entries writing off unidentified differences should have the approval of the board of directors.

Leslie Surginer
Leslie Surginer
Chief, Accounting and
Auditing Division

